STATE OF MAINE
PUBLIC UTILITIES COMMISSION

November 4, 2003

TDS TELECOM COMPANIES
(Cobbosseecontee, Hampden, Hartland and St. Albans, Somerset, Warren and West Penobscot Telephone Companies)

Requests for Universal Service Funding

Docket No. 2002-497

ORDER APPROVING RATE PLAN, REVISED LOCAL SERVICE RATES AND MODIFIED UNIVERSAL SERVICE FUNDING

TDS TELECOM COMPANIES
(Cobbosseecontee, Hampden, Hartland and St. Albans, Somerset, Warren and West Penobscot Telephone Companies)

Implementation of 2002 Amendments to Chapter 204

Docket No. 2003-484

ORDER APPROVING BSCA CALCULATIONS SUBJECT TO TRACKING

WELCH, Chairman; DIAMOND and REISHUS Commissioners

I. SUMMARY

In this Order, we approve the plan filed by six of the seven TDS Telecom Companies of Maine (Cobbosseecontee, Hampden, Hartland and St. Albans, Somerset, Warren and West Penobscot Telephone Companies) to increase their rates for local exchange service to Verizon levels in two further steps, one that will be simultaneous with expansions of the companies' basic service calling areas (BSCAs) on December 15, 2003, the other on May 31, 2005. We also approve modifications in the amount of universal service funding (USF) for these six companies. The modifications take into account both the increases to local rates and the access revenue losses that will occur as a result of implementation of the BSCA expansions. At this time, we order no modifications, either in local rates or USF, for The Island Telephone Company, which is the seventh TDS company in Maine. The BSCAs for the four exchanges of Island Telephone Company will not be expanding because, being located on islands, none of them have contiguous exchanges.[1]

II. BACKGROUND

On March 5, 2003, in seven separate orders issued in Docket No. 2002-497, we approved universal service funding (USF) for the TDS companies in Maine. The orders required the companies to file plans for increasing their local rates to the same level as those of Verizon, as required by the USF rule, Chapter 288, § 3(B)(3). We granted the companies an exemption pursuant to Chapter 288, § 3(C)(2) (which allows a delay of up to three years from the date of initial USF) at least until the time when BSCA expansions were to occur. We

[1] See Chapter 204, § 2(C) (definition of "contiguous exchange"). TDS is exploring the possibility of adding nearby mainland exchanges to the BSCAs of the Island exchanges and is delaying any proposed local rate increase until after that exploration is complete.

suggested that increasing local rates all the way to Verizon levels at that time would be acceptable without further justification, but also recognized that the access parity statute, 35-A M.R.S.A. § 7101-B, might be amended to state a later deadline for access reductions and (implicitly) local rate increases. The statute was amended to allow LECs to delay reductions in intrastate access rates to interstate levels until May 31, 2005. The amended statute also allows (and, under some circumstances not present here, requires) LECs to phase in local rate increases and USF.

The March 5 orders (which pre-dated the amendment to 35-A M.R.S.A. § 7101-B) required the companies to reduce access rates to interstate levels by May 30, 2003, the deadline previously imposed by the statute. Notwithstanding the statutory change, the companies complied with the orders. Accordingly, USF in the amounts ordered in the March 5 orders began shortly thereafter.

In their October 3, 2003 filing,[2] the companies proposed to phase in the remaining increases to their rates for local service in two additional steps.[3] The first would occur on December 15, 2003, the date of the BSCA expansions. Rates would increase at that time by 50% of their current difference from present Verizon rates (subject to a maximum of $2.50). The second step would occur on May 31, 2005.

Although the companies' intrastate access rates are now at interstate levels, the companies will experience access revenue losses as a result of the BSCA expansions that will become effective on December 15, 2003 (the addition of all contiguous exchanges to the BSCA for each exchange). These expansions are required by the November 2002 amendments to Chapter 204. Calls to the areas that are being added to the companies' BSCAs that previously incurred long distance toll charges will become local so that all the access revenue associated with those minutes is lost. This effect requires additional USF. Nevertheless, the local rate increases proposed by the companies will more than offset the projected net revenue losses due to BSCA expansions (and associated relatively small cost increases), thereby resulting in a reduction of USF needs for each of the companies. On an overall basis, the revenues available to the companies should be the same, i.e., the net effect of all changes are intended to be revenue neutral.

With BSCA changes, however, revenue neutrality is difficult to achieve on the basis of advance predictions, specifically the difficulty of predicting "take" rates for Premium and Economy calling options and local per-minute rates. We discuss the BSCA implementation and rate effects in greater detail below.

We note that the TDS companies (and USF companies generally) have not proposed any specific local rate increases (beyond those for phasing in Verizon rates) to cover the access revenues losses and costs that will occur as a result of the BSCA expansions. We agree that this approach is appropriate. The companies are required to increase their local rates to equal those of Verizon as a condition of receiving USF. We do not at this time see any reason to require these companies to implement rates that are higher than Verizon's,

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[2] The companies previously filed plans on May 2, 2003. These are superseded by the October filing.

[3] The companies previously increased rates in June of 2001.

although that result would be permitted under Chapter 288, § 3(C)(3). BSCA expansion diminishes the companies' revenues; it is no less appropriate to cover these revenue losses through USF than it is to cover revenue losses caused by the need to lower access rates.

III. DISCUSSION

We find that the TDS companies' proposed local rate plans are reasonable, particularly in light of the evident concern of the Legislature in amending 35-A M.R.S.A. § 7101-B that higher rates for customers of rural local exchange carriers be phased in to avoid undue rate shock. Because the final stage of phasing in Verizon-level rates will not occur until May 31, 2005, we will need to further adjust the amount of USF for each company on that date. It also makes sense to incorporate any results from BSCA tracking at that time even though the tracking will end in January 2005.

In their October 3, 2003 filings, the companies provided calculations of the BSCA revenue losses (which, as explained below, are known and certain amounts) and estimates (less certain) of revenue gains from local rate changes. The BSCA-related revenue changes include access revenue losses that will occur because calls to the areas that are being added to the companies' BSCAs previously incurred long distance toll charges (and generated access revenues for the companies), but are now local calls.[4] They also include changes in local revenue due to changes in the mix of subscribership to the Premium and Economy options, as well as changes due to the change in the rate (from 25 cents per call to 5 cents a minute) for economy customers who call outside the flat-rate calling areas of this Economy option but within the BSCA. The companies also included estimates of BSCA-related facility and directory costs. As discussed in greater detail below, it is difficult to predict some of these elements.

Chapter 204, § 5(A) states that a LEC that implements new or modified BSCAs may propose rates that will cover its additional costs and net revenue losses that are attributable to those BSCA changes. We interpret that provision to allow a company that is already receiving USF to seek additional support. Section 5(C) requires LECs to "track" revenue effects for a period of at least 12 months. If the LEC's net revenue loss is greater than predicted (i.e., greater than the prediction upon which the rates approved pursuant to Section 5(A) were based), the LEC may request recovery of the shortfall and propose rates (or a change in USF) that will collect the correct amount of revenue loss. If the LEC's net revenue loss is less than predicted (and included in rates approved pursuant to Section 5(A) or funded by USF), it must return the excess to customers (or the Universal Service Fund) and must propose future rates (or ongoing support) that will collect the correct amount to offset the revenue loss.

There is no reason for the BSCA tracking account to track lost access and billing and collection (B&C) revenues. Once these amounts are calculated (based on an appropriate test period), they never change for ratemaking or USF purposes. The number of minutes and messages (and, therefore, access and B&C revenue) the companies will lose as a result of the BSCA expansions is known in advance, by using an appropriate test period. We have therefore used that amount in this Order to alter the amount of universal service funding. In

[4] The companies have no retail toll revenue; they only provide access to interexchange carriers.

addition, one of the components of local service revenue will be permanently lost and its amount known in advance. That is the revenue from the rate of 25 cents per call for calls by Economy option customers to exchanges within the customer's BSCA but outside the flat-rate calling area of the Economy option. (That rate is being replaced by a rate of 5 cents per minute.)

It is necessary, however, to track the amount of additional local revenue that will offset the known amounts described above. The local replacement revenues include revenues available from the increases to local rates for both the Premium and Economy options and from a new rate of 5 cents per minute for calls by Economy option customers to exchanges within the customer's BSCA but outside the flat-rate calling area of the Economy option (replacing the 25 cents per-call rate). These revenues cannot be fully predicted because the realized mix of customers subscribing to the Premium and Economy options may differ from the predicted levels. Predictions are difficult to make because, ultimately, only customers can determine which of the calling options has greater value to them, and the calling areas available under each option will have changed. It is also difficult to predict revenues that the companies will receive from the new 5 cents per minute rate. The new rate may be more attractive to some customers and less attractive to others than the former 25 cents per call rate and might even influence customer choice for the two calling options.

Chapter 204, § 5 (C) does not expressly require "tracking" of expenses and new investment, or the recovery by the utility or by ratepayers of the difference between the estimates embodied in rates (or USF) and actual costs, notwithstanding the fact the Section 5(A) allows a LEC to propose rates (or USF) in advance of implementation that will cover those costs. The level of costs estimated by the Companies is relatively small, but the Companies provided few details in support of their estimates of those costs and we have not subjected them to close examination. We therefore find that it is reasonable, as a condition of providing universal service funding that will cover those costs, that the companies keep records of the actual BSCA-related implementation expenses and investment, and that they provide that information to the Commission when such expenses and investment are completed, but no later than March 15, 2005, when they must also file the information necessary for the Step 2 access and local rate changes that will take effect on May 31, 2005. Tracking should be for a period that covers all expenses related to BSCA and any changes in investment attributable to the BSCA expansions, but not later than January 31, 2005. Results shall be presented in absolute and annualized forms.

With that information we might consider whether to order a change in future USF funding to reflect the differences between present estimates and actual costs. We do not decide at this time whether we could or would order reconciliation for the differences during the tracking period. We note, however, that because the cost changes presently estimated by the Companies are small, if the projections are reasonably accurate, rate changes or reconciliation may be unnecessary.

Under the TDS local rate plan, the companies will not change their local rates again until May 31, 2005. USF funding will change at the same time. We therefore see little reason to require a change in USF to adjust for the results of BSCA tracking only a few months prior to that date. The companies shall track the replacement revenues for 12 months and report the results to the Commission on or before March 15, 2005 so that, if necessary, they may be incorporated into the USF that will become effective for the third quarter of 2005. Because notice of the BSCA changes will be relatively close to the December 15, 2003 implementation date, and many customers may not respond immediately to the calling options contained in the notice, we believe it makes sense for the 12 months of tracking to begin on February 1, 2004. The results shall be compared to the projections used in the October 3, 2003 filings.

IV. RATE AND USF CHANGES FOR EFFECT ON MAY 31, 2005

Under the TDS rate plan, Step 2 of the local rate increases will occur on May 31, 2005. We note that in *Maine Public Utilities Commission, Investigation of Compliance of Verizon Maine with Amended 35-A M.R.S.A. § 7101-B*, Docket No. 2003-358, we recently decided that Verizon would phase in the access rate reductions required by amended Section 7101-B on May 31, 2004 and May 31, 2005.[5] We did not decide if Verizon would be allowed to offset those access rate decreases with increases to local rates.[6] That issue will be addressed in further proceedings. If we do permit a local rate increase by Verizon that will become effective on May 31, 2005, however, Chapter 288 requires the TDS companies to increase their local rates to meet the Verizon level as of that date.

As discussed above, the companies also need to track BSCA-related changes in local revenues and costs. Finally, the companies may experience other changes in sales that may need to be taken into account in establishing revised USF that will become effective on May 31, 2005. The companies therefore shall file the most recently available billing units for all services by March 15, 2005.

Accordingly, we

1. APPROVE the plans of Cobbosseecontee, Hampden, Hartland and St. Albans, Somerset, Warren and West Penobscot Telephone Companies (the TDS Telecom Companies in Maine) to increase local rates in two steps, as described in this Order. The Companies shall implement the first step on December 15, 2003, and shall provide advance notice to its customers as soon as feasible, along with notice of calling options and rates for those options available for the basic service calling areas of each of their exchanges;

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[5] We decided this issue at our deliberations on October 9, 2003, but no Order has issued yet in that case.

[6] We will determine this issue in the future depending on whether the decreases meet the definition, under Verizon's AFOR, of an exogenous change.

2. APPROVE revised universal service funding in the following amounts for each of the Companies, effective from December 15, 2003 until May 31, 2005 unless modified by later order:

	Present Funding	Revised Funding
Cobbosseecontee	$121,972	$100,499
Hampden	$542,693	$351,446
Hartland and St. Albans	$887,101	$722,861
Somerset	$3,441,230	$2,804,992
Warren	$504,521	$459,831
West Penobscot	$789,657	$700,112
TOTAL for 6 companies[7]	$6,287,174	$5,139,741

3. APPROVE, subject to the maintenance by the TDS Telecom Companies of tracking accounts and the reporting of the tracking results, as described herein, the calculations by each company of expected revenue losses and gains and cost changes as a result of BSCA expansions;

4. ORDER the TDS Telecom Companies to maintain tracking accounts from February 1, 2004 until January 31, 2005 for net revenue changes (from changes in access and local rates and billing units) resulting from additions to basic service calling areas (BSCAs) that will become effective on December 15, 2003, to report the results of that tracking on or before March 15, 2005, and to reimburse the Maine Universal Service Fund for any over-funding consistent with the requirements of Chapter 204, § 5(C) and this Order;

5. ORDER the TDS Telecom Companies to maintain tracking accounts from the commencement of the incurrence of expenses until January 31, 2005 for changes in revenue requirement (expenses and investment) resulting from of the implementation of the BSCA changes that will take place on December 15, 2003, and to report the results of that tracking on or before March 15, 2005; and

[7] The totals do not include the USF for The Island Telephone Company, which remains unchanged.

6. ORDER the TDS Telecom Companies to file the most recently available billing units for all their services on or before March 15, 2005.

Dated at Augusta, Maine, this 4th day of November, 2003.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
Diamond
Reishus

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.

2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within **21 days** of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.

3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.